

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Robert G. Taub, Chairman;
Michael Kubayanda, Vice Chairman;
Mark Acton;
Ann C. Fisher; and
Ashley Poling

Periodic Reporting
(Proposal Four)

Docket No. RM2020-11

ORDER ON ANALYTICAL PRINCIPLES USED IN PERIODIC REPORTING
(PROPOSAL FOUR)

(Issued September 23, 2020)

I. INTRODUCTION

On July 13, 2020, the Postal Service filed a petition pursuant to 39 C.F.R. § 3050.11, requesting that the Commission initiate a rulemaking proceeding to consider a proposal to change analytical principles relating to the Postal Service's periodic reports.¹ Proposal Four seeks to revise the International Cost and Revenue Analysis (ICRA) reporting methodology used to estimate international mail settlement expenses. Petition at 1. The Postal Service intends "to use additional data from the Foreign Postal Settlement (FPS) system to more accurately distribute" these expenses. Petition,

¹ Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles, July 13, 2020, at 1 (Petition). The proposal is attached to the Petition (Proposal Four). See also Notice of Filing of USPS-RM2020-11-NP1 and Application for Nonpublic Treatment, July 13, 2020.

Proposal Four at 1. For the reasons discussed below, the Commission approves Proposal Four.

II. PROCEDURAL HISTORY

On July 16, 2020, the Commission issued a notice initiating this proceeding, providing for the submission of comments, and appointing a Public Representative.² Chairman's Information Request (CHIR) No. 1 was issued on August 10, 2020.³ The Postal Service responded to CHIR No. 1 on August 17, 2020.⁴ The Public Representative filed comments on August 20, 2020.⁵ CHIR No. 2 was issued on September 3, 2020.⁶ The Postal Service filed its response to CHIR No. 2 on September 9, 2020.⁷

III. BACKGROUND

Outbound settlement expenses include terminal dues, air conveyance, and surface transit payments to foreign postal operators for the delivery of mail that originated in the United States. The Postal Service reports these settlement expenses in two General Ledger (GL) accounts 53298 and 53299. Petition, Proposal Four at 1. Outbound settlement expenses for International Surface Airlift (ISAL) and Priority Mail International (PMI) are contained in GL account 53298. Outbound settlement expenses for International Priority Airmail (IPA), First-Class Mail International (FCMI), First-Class Package International Service (FCPIS), International Direct Sacks – M-Bags (air M-

² Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (Proposal Four), July 16, 2020 (Order No. 5587).

³ Chairman's Information Request No. 1, August 10, 2020 (CHIR No. 1).

⁴ Responses of the United States Postal Service to Questions 1-12 of Chairman's Information Request No. 1, August 17, 2020 (Response to CHIR No. 1).

⁵ Public Representative Comments, August 20, 2020 (PR Comments).

⁶ Chairman's Information Request No. 2, September 3, 2020 (CHIR No. 2)

⁷ Response of the United States Postal Service to Question 1 of Chairman's Information Request No. 2, September 9, 2020 (Response to CHIR No. 2).

Bags (AMB)), and Priority Mail Express International (PMEI) are contained in GL account 53299. *See id.* at 1-2.

Currently, the ICRA calculates item- and weight-rated settlement expenses for each of the products listed above. Settlement expenses for each of ISAL and IPA are calculated at a sub-product level, *i.e.*, item- and weight-rated settlement expenses are calculated for format P/G (ISAL_PG and IPA_PG, respectively), format E (ISAL_E and IPA_E, respectively), and M-Bags (ISAL_MBag and IPA_MBag, respectively).⁸ A single benchmark factor is then calculated for each GL account.⁹ This single benchmark factor is applied to ICRA-calculated settlement expenses of all products and sub-products associated with each respective GL account equally across-the-board. Petition, Proposal Four at 1-2.

IV. PROPOSAL FOUR

Proposal Four seeks to use additional data from the FPS system to improve ICRA reporting by more accurately distributing outbound settlement expenses to international mail categories. *Id.* at 1.

This additional data allows the Postal Service to distinguish between settlement expense amounts incurred by or allocated to eight product and sub-product categories,

⁸ Format P/G includes small (P) and large (G) Letter Post items. Format E includes small packets and bulky letters (E) items. M-Bags include sacks of printed matter. *See* Mail Classification Schedule available at: <https://www.prc.gov/mail-classification-schedule>.

⁹ *Id.* at 2. When calculating the benchmark factor, calculated settlement expenses for the Negotiated Service Agreement (NSA) portion of products and sub-products associated with GL account are first deducted from total reported settlement expense amount in GL account. The remainder is the target amount to which ICRA-calculated settlement expenses for the non-NSA portion of products and sub-products are benchmarked. For each GL account, the benchmark factor is equal to the target amount divided by the sum of ICRA-calculated settlement expenses of products and sub-products associated with the GL account. *See* Docket No. ACR2019, Library Reference USPS-FY19-NP2, Revised January 10, 2020.

four in each GL account.¹⁰ The data further allow the Postal Service to distinguish between item and weight components of settlement expenses within the eight product and sub-product categories. *Id.* at 1.

As a result, the Postal Service can replace its single benchmark factor for each GL account with benchmark factors specific to each combination of international mail product and sub-product category (four product and sub-product categories in each GL account) and settlement expense component (two settlement expense components in each GL account – item and weight).¹¹ Consequently, the ICRA-calculated settlement expenses can be benchmarked individually to incurred or allocated settlement expense amounts that are directly related to the eight product and sub-product categories. Petition, Proposal Four at 2.

Each of the two GL accounts contains settlement expenses that are clearly incurred by format P/G (letters and flats) and format E (packets) mailpieces (“identified” settlement expenses) and expenses not clearly defined by shape (“miscellaneous” settlement expenses).¹² In the initially-filed workpapers, the Postal Service allocated miscellaneous settlement expenses in each GL account to packets. *Id.* In its Response to CHIR No.1, the Postal Service provided a method to allocate miscellaneous settlement expenses between letters and flats and packets in each GL account based

¹⁰ *Id.* at 2. In GL account 53298, the Postal Service identified settlement expenses for ISAL_E, ISAL_P/G, ISAL_MBag, and PMI. *Id.* at 4. In GL account 53299, the Postal Service identified settlement expenses for letter post packets (FCPIS, IPA_E, and ePackets), letter post letters and flats (FCMI and IPA_P/G), M-Bags (IPA_MBag and AMB), and PMEI. *Id.*

¹¹ M-Bags incur terminal dues on the basis of weight alone; there are no per piece terminal dues for M-Bags. As a result, the ICRA does not calculate piece-rated settlement expenses for M-Bags, and the weight-rated settlement expenses calculated in the ICRA are benchmarked to incurred settlement expenses for M-Bags in respective GL accounts. Accordingly, under the proposed methodology, one benchmark factor applied equally across-the-board would be replaced with seven benchmark factors in each GL account. See Universal Postal Convention, Article 28.7 (adopted by the 2016 Universal Postal Union (UPU) Congress), available at: <https://www.upu.int/UPU/media/upu/files/UPU/aboutUpu/acts/actsOfCurrentCycle/actsActsOfThe26ThCongressIstanbul2016En.pdf>.

¹² See Response to CHIR No. 1, question 1. Identified and miscellaneous expenses reported in GL account 53298 are associated with ISAL_P/G and ISAL_E mailpieces; in GL account 53299, they are associated with letter post letters and flats and letter post packets.

on the shares of identified settlement expenses for the affected mail categories. *Id.* In its Response to CHIR No. 2, the Postal Service further clarified the proposed alternative allocation of miscellaneous settlement expenses.¹³

The Commission evaluated an allocation of miscellaneous settlement expenses based on the shares of identified settlement expenses. This alternative allocation proved problematic with respect to ISAL. For the weight component, miscellaneous settlement expenses reported in GL account 53298 represent 43 percent of total settlement expenses for ISAL_P/G and ISAL_E incurred on the basis of weight. Distributing them between ISAL_P/G and ISAL_E resulted in not enough settlement expenses allocated to ISAL_E to calculate a benchmark factor for the weight component of this sub-product category.¹⁴

Furthermore, the questions in CHIR No. 1 identified a number of ICRA inaccuracies found during Commission's review of the methodology that is subject to Proposal Four.¹⁵ The Postal Service corrected identified issues in the workpapers filed under seal in support of its Response to CHIR No. 1.¹⁶

In terms of impact, the proposed methodology results in a shift of approximately \$7 million of settlement expenses from Market Dominant to Competitive products.¹⁷

¹³ See Response to CHIR No. 2; See also Notice of Filing of USPS-RM2020-11-NP3 and Application for Nonpublic Treatment, September 9, 2020.

¹⁴ See n.8. In case of ISAL_E, the calculated weight-rated settlement expenses for NSA portion of ISAL_E exceeded the respective (identified + allocated) settlement expense amount in GL account 53298, which resulted in a negative target amount.

¹⁵ See CHIR No. 1, questions 2-12.

¹⁶ See Response to CHIR No. 1; See also Notice of Filing of USPS-RM2020-11-NP2 and Application for Nonpublic Treatment, August 17, 2020.

¹⁷ Petition, Proposal Four at 2. Since the only Outbound International Market Dominant product that incurs settlement expenses is FCMI, the entire amount of approximately \$7 million is shifted from FCMI. The off-setting increase in settlement expenses is spread over the competitive outbound international products which incur settlement expenses.

V. COMMENTS

The Commission received comments from the Public Representative. No other interested party filed comments. The Public Representative states that “the proposed methodology improves the accuracy of distributing outbound settlement expenses in the ICRA.” PR Comments at 3. He commends the Postal Service for “its efforts to more accurately distribute [settlement] expenses between market dominant and competitive products.” *Id.* He then comments on the shift of \$7 million of settlement expenses from Market Dominant products to Competitive products which results from the implementation of the proposed methodology. *Id.* He states that, even with the above-mentioned shift, “competitive products as a whole still comply with 36 U.S.C. § 3633(a).” *Id.* (citation omitted). He encourages the Postal Service to “try to ensure” that each international NSA, and especially those NSAs which are individual products rather than part of larger product groupings, continue to cover their attributable costs. *Id.* He notes that the Postal Service should amend any current NSA that is an individual product and fails to cover its costs. *Id.* at 4. For future NSAs, the Public Representative recommends that the Postal Service “adjust[s] NSA price structures accordingly to ensure full cost coverage.” *Id.*

VI. COMMISSION ANALYSIS

Based upon a review of Proposal Four, the workpapers filed in support of Proposal Four, the Responses to CHIR Nos.1 and 2, the workpapers filed in support of the Responses to CHIR Nos. 1 and 2, and the Public Representative’s comments, the Commission approves Proposal Four. Proposal Four improves the Postal Service’s ICRA reporting by using additional FPS system data to more accurately distribute outbound settlement expenses to international mail categories. With the more accurate costing information developed via this rulemaking, the Commission expects the Postal Service to price international mail products, including NSAs, at compensatory levels.

Proposed changes to analytical principles are evaluated to ensure that they “improve the quality, accuracy, or completeness of the data or analysis of data”

contained in the Postal Service's periodic reports, pursuant to 39 C.F.R. § 3050.11(a). Proposal Four improves the completeness of the Postal Service's analysis of data because the use of additional FPS system data allows for a more complete analysis of available data. Proposal Four also improves the accuracy of the Postal Service's analysis of data because a more complete analysis of available data results in a more accurate distribution of outbound settlement expenses to international mail categories. Accordingly, the Commission approves Proposal Four.

The Commission directs the Postal Service to allocate miscellaneous settlement expenses in each GL account to packets in the next Annual Compliance Review (ACR) docket. Additionally, the Commission directs the Postal Service to better identify miscellaneous settlement expenses in the future.

The Commission further directs the Postal Service to implement the corrections identified in its Response to CHIR No. 1, in the next ACR docket, in order to further improve the accuracy of the ICRA.

VII. ORDERING PARAGRAPH

It is ordered:

For purposes of periodic reporting to the Commission, the changes in analytical principles proposed by the Postal Service in Proposal Four are approved.

By the Commission.

Erica A Barker
Secretary